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Colombia

Retail Food Sector

Investments in the Colombian Supermarket Sector 2002

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Report Highlights:

In a hyper-competitive environment, the major supermarket and hypermarket chains in Colombia are investing and restructuring their businesses.

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
Bogota [CO1], CO

The entrance of the French hypermarket chain, Carrefour, into the Colombian food retail market in 1998 has led to a major shake up in the sector and a new, more competitive environment among the principal retail chains in the country. The five big players are:

Retail Chain	Number of Stores	2000 Food Sales (\$ million)*
Exito	15	824
Carulla (including Carulla-Vivero and Merquefacil)	157	344
Olímpica	135	264
Carrefour	5	65
Makro	6	60

*Estimates

All of these companies have tried to meet the challenge that Carrefour has made in the Colombian market, by investing heavily in construction of new stores, renovating older stores, and overhauling business practices to make themselves more competitive. The following report summarizes the business plans for each major chain for the coming year. Despite considerable expansion, however, Colombian supermarkets are still far from reaching the average of one supermarket per 8,000 people in developed countries. Currently, in Colombia, the average is one supermarket per 25,000 inhabitants.

Carulla

This supermarket chain will invest \$72 million constructing and renovating several stores in 2002. The marketing plan includes the opening of ten additional Merquefacil stores (a type of convenience store), giving them a total of 49 in Colombia. Of the ten new stores, two will be in Barranquilla, one in Bogota, and another in Medellin, with the remaining six in smaller towns throughout the country. Carulla's President, Samuel Azout, stated that in 2001 the chain invested US\$100 million buying smaller store chains, like Merquefacil. Gross sales for all retail stores in the Carulla chain in 2001 were \$591 million, a 45 percent increase over sales in 2000. The goal for 2002 is a 25 percent sales increased, although strong competition and lower profit margins may make this goal a challenge to reach.

Olimpica

Olimpica will continue to grow and expand this year and work to differentiate its supermarkets from its competitors. Their strategy is to open additional outlets in medium-sized cities and one additional full-scale supermarket in Bogota, Cali and Barranquilla. A new store was already opened in Barranquilla, in order to compete with the planned opening by Exito of a new hypermarket in this city. In 2001,

Olímpica invested \$22.5 million remodeling and opening new stores. With this investment, Olímpica improved considerably its market share in medium-sized towns, such as Sogamoso, Girardot, Tunja, and Pereira, as well as in big cities like Barranquilla and Cali.

In 2001, Olimpica increased its number of stores from 126 to 135 in several different store formats, such as SAO (a hypermarket), Supertiendas Olímpica (supermarket), and Droguerías Olímpica (drug stores). Carlos Barrera, the area manager for Bogota, mentioned that they will have to hire 270 new employees to staff their additional stores in Bogota. The silver credit card strategy implemented by the store chain has proven to be very efficient in capturing new customers and keeping their loyalty. With the commitment to improve their customer service, the chain plans to have a 24-hour convenience service in strategic locations in Bogota. The organization's sales figures for 2001 will be released in February 2002. It is anticipated that the 2001 sales growth was 11 percent from the \$226 million sales figure for 2000.

Carrefour

President of Carrefour Colombia, Jean Noel Bironneau, indicated that the company will invest \$50 million this year to open two new hypermarkets in the country—one in Medellin and the other in Bogota. This will bring the total number of stores in Bogota to four. The total investments of the French hypermarket chain and the Colombian enterprise Grupo Bavaria (one of the partners) were \$80 million in 2001. The hypermarket store format is very similar in all locations. Mr. Bironneau indicated that among the five South American countries where the French supermarket chain operates, their operation in Colombia is the most profitable. Carrefour also noted that competition is very strong among the various retail outlets operating in the country, stressing that Carrefour relies on its experience and focus on providing good customer service to be competitive.

Makro

Makro, the Dutch retailer, operates as a wholesale outlet in Colombia. Their gross sales increased by 25 percent in 2001 to \$120 million, with profits of \$2.5 million compared to \$0.5 million in 2000. Makro is trying to increase profits in 2002 by adopting a very strict cost control plan and by continuing to increase the volume of the hypermarket's own store-brand products. Store-brand sales went up from 9.4 percent in 2000 to 12.5 percent in 2001 and from 480 to 580 items. As part of their strategy, Makro worked to raise the portion of their customers from the institutional sector, such as hotels, bars, casinos, restaurants. This effort resulted in an increase in the percentage of institutional buyers from 40 percent in 2000 to 64 percent in 2001. The goal is to increase the percentage to 70 percent in 2002.

Regarding expansion, Makro will invest \$6.6 million to open a second store in Bogota this year, which will adopt a smaller format similar to the one opened in Pereira last year. Makro has found that the smaller stores are more profitable, compared to the larger format of their first store opened in Bogota in 1988. According to Makro, this new store will create 65 new jobs and another 250 indirectly.